DIVISION OF ISSUE AND REDEMPTION.

EBRUARY 20, 1899.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed.

[r. JOHN MURRAY MITCHELL, from the Committee on Banking and Currency, submitted the following

REPORT.

[To accompany H. R. 11743.]

The Committee on Banking and Currency, to whom was referred the ll (H. R. 11743) to establish an issue and redemption division in ie Treasury Department, to establish a redemption fund and a gold-serve fund, and to strengthen the public credit, respectfully submit ie following report and recommend that said bill as amended do pass.

The object of this bill is to strengthen the public credit. The Treas-y Department has two entirely distinct duties to perform in relation the finances of this Government: one, to make exchanges of one ass of money for another and to maintain all currency on a parity ith gold; the other, to receive the revenues and to pay all fiscal obli-ations of the Government.

Under the present law there is in the Department no separation of ese two branches of business; and yet, in the judgment of the com-ittee, they should be kept absolutely free and independent from each her. If there is a surplus from revenue over expenditures, the gold serve of $100,000,000 is not endangered, because there is a constant crease of surplus in the general funds of the Treasury. But when e revenues are less than the expenditures, the gold reserve is neces-rily used to pay the deficit, the impairment of which reserve weakens e credit of the country, as it threatens to deplete the fund kept as a ilwark of the public credit, and creates the natural fear in the public ind that the United States is approaching a debased currency.

The fear engendered by this may lead to disaster. Such fear would obviated if there was a clear separation of the credit branch of the easury from the fiscal branch, so that there might be no confusion as which branch was chargeable with responsibility. In 1894, 1895, d 1896 bonds were issued to the extent of $262,300,000 nominally to plenish the gold reserve, but largely to make good deficiencies of rev-ue. The friends of free silver coinage opposed this issue, contending at the gold standard was at the bottom of all their troubles. Had ere been a separation of the issue and redemption and fiscal branches the Department the contention could not have arisen.

If prior to the panic of 1893 it had been known that the reserves had en impaired by reason of the failure of the revenues to meet the

expenditures, the proposition with which Congress would have had to deal would have been a simple one, viz: To authorize the raising of more revenue or the sale of bonds to make up the deficit. But the sale of bonds to replenish a rapidly diminishing gold reserve naturally created the fear that we could not maintain the gold reserve, and the gold standard was fiercely attacked by the silver men as being the rea cause of trouble.

That this Government can temporarily spend more money than i receives without affecting its credit was conclusively proved when i was threatened with a war with Spain. Fifty million dollars was vote out of the Treasury without hesitation in anticipation of the war Bonds were issued and readily sold to further prepare the Governmen for its possible struggle both on land and sea.

In spite of the fact that the Government was called upon to expend a enormous sum over and above its ordinary expenses and over an above its revenues, and was involved in war, the value of all goo securities in this country commenced to rise shortly after the outbrea of the war, and these securities have continued to advance in mark value almost uninterruptedly since that time.

The object of this bill is to provide for the maintenance of the publ credit at the highest standard, notwithstanding the possible loss revenues, and to make the credit so strong and so distinct from th fiscal branch of the Government that it shall stand in spite of extrav gant appropriations and unfortunate revenue and tariff laws.

In order to accomplish this result the bill provides generally for a sep ration in the Treasury Department of the issue and redemption bran from the fiscal branch of said Department, and provides that separa books shall be kept in each branch; that there shall be transferred this issue and redemption division such funds as are necessary to en ble it to perform the functions for which it is established.

Section 2 provides that there shall be transferred from the gene fund in the Treasury and taken up on the books of the issue a redemption division of the Treasury as a redemption fund the amou in gold coin and bullion held against outstanding gold certificates, amount in United States notes held against outstanding currency c tificates, the amount in silver dollars held against the outstanding sil certificates, the amount in silver dollars and silver bullion held agai outstanding Treasury notes of 1890.

It is evident that the transfer of these funds in no wise contracts currency of the country one dollar, as the entire redemption fund ab provided for is now held by the Treasury as trustee.

Section 3 provides for a gold reserve fund in the issue and rede tion division and that there shall be transferred from the general fu in addition to the funds provided for by section 2, an amount of g coin and bullion equal to 25 per cent both of United States notes Treasury notes issued under the act of 1890, outstanding, and a fur sum in gold coin and bullion equal to 5 per cent of the aggre amount of the coinage of silver dollars; this reserve fund to be u only for the redemption of the notes and for making such other excha as are thereafter provided for in the bill.

The effect of this section would be that the books of said div would have shown on the first day of January, 1899, as follows:

25 per cent of United States notes	$86, 6
25 per cent of Treasury notes	24, 1
5 per cent of silver dollars	23, 5
Making the total amount of gold in this division	134, 3

The amount of gold in the Treasury January 1, 1899, was $246,973,026.

Experience has taught us that $100,000,000 was the lowest amount) which the gold reserve should be allowed to fall, and that that is the mit of safety. Under our present system the limit of safety is con-antly threatened by the Treasury being compelled to pay out money ppropriated by Congress, and to pay it out even if it absorbs the entire serve fund. The Treasury has no option in the matter.

It is perfectly evident, therefore, that if Congress, by inadvertence · otherwise, should make heavy appropriations and fail to give ithority to raise money by selling bonds, this reserve fund, which is e bed rock of our credit, might be absolutely depleted under the pre-nt law, and a worse panic than we have ever yet experienced be the sult.

It is, therefore, the opinion of the committee that this reserve fund ould be so safeguarded by law that it can not be impaired under any nditions, and that this will be accomplished by the provisions of this ll, should they become enacted into law.

Sections 4 and 6 provide for means of maintaining the gold reserve. Section 5 provides especially the payments to be made and the ex-anges to be affected.

Section 7 provides that when Treasury notes of 1890 are redeemed the Treasury they shall be canceled and not reissued; and that when iited States notes are redeemed they shall be retained in the division issue and redemption, but not canceled nor reissued except in change for gold.

Section 8 provides that gold certificates and currency certificates, enever paid or received into the Treasury, shall be retired and iceled.

'he effect of sections 7 and 8, in so far as they relate to the impound-of United States notes and Treasury notes and the cancellation of d certificates and currency certificates when redeemed, is that the n who draw gold in large sums from the Treasury shall have their lity to do this gradually curtailed by the locking up of the paper ney and making this commodity scarce in the great money centers. 'he natural result of this scarcity of paper currency would be to ipel the great banks, which constantly have large sums of gold on id, to take this gold to the Treasury and get the notes held in the ie and redemption division in exchange therefor.

t is believed that under the operations of this bill practically the re fund in the division of issue and redemption would consist of l.

he latter part of section 7 provides that if there shall be at any time iccumulation of United States notes over and above what, in the gment of the Secretary of the Treasury, is required for making gold ianges, he is authorized to invest the same, or any part thereof, in rest-bearing obligations of the United States for the benefit of the l reserve, said obligations to be held in the division of issue and emption subject to sale at the discretion of the Secretary of the isury for the benefit of the gold reserve, and for no other purpose. ie object of this proviso is to prevent the undue contraction of the ency which might result from the accumulation of legal-tender s in the Treasury. The authority given the Secretary of the Treas-to invest in bonds a portion of the paper currency in the reserve per-him to put the reserve, to this extent, to profitable use, and to increase ltimate strength by the interest obtained upon the bonds. This retion in the hands of a prudent officer might be used, in the event

of a serious pressure for currency, to relieve such pressure without weakening the reserve.

The bill also provides that this gold fund can be reenforced by exchanging the gold, coming into the fiscal department of the Treasury, for United States notes and Treasury notes, etc., which have come into the issue and redemption division in exchange for gold.

It is believed that the enactment of this bill would greatly enhance confidence in the stability of our currency and promote the prosperity of the country.

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